

Testimony of
Glenn English
Chief Executive Officer
National Rural Electric Cooperative Association
Before the
House Agriculture Committee
Subcommittee on Conservation, Credit, Rural Development & Research
June 26, 2001

Executive Summary

Rural communities are currently challenged by declining populations and economies shattered by low agricultural commodity prices. The new global economy is providing opportunities for growth and diversification, and federal policies can help rural leaders take advantage of these.

Investment capital is in short supply in rural areas, severely limiting their economic development. A proposed new federal/private partnership program would encourage private financial investments in rural communities. Local sponsorship and private funding would help ensure sound investment decisions in development projects. USDA's Rural Economic Development Loan and Grant Program provides low-interest investment capital and grants to rural communities through their electric cooperatives, leveraging nearly \$1.2 billion in non-federal capital and creating over 25,000 jobs since its inception in 1987. Loans and grants have declined in recent years, but this trend can be reversed

with some modest changes. Both of these programs can help move much-needed investment capital into rural communities.

New opportunities for rural development also abound. Broadband internet access can help close the distance between rural America and the external markets, employment, and educational opportunities available in urban areas. A Rural Utility Service broadband loan and grant program can leverage investment to ensure that these services are rapidly deployed. Biobased products and bioenergy are creating new uses for agricultural products and new businesses for rural America. Programs that stimulate public demand can accelerate our transformation into a biobased economy. And expanded conservation programs that increase carbon in the soil will provide not only support to rural economies, but will provide numerous environmental benefits as well.

Rural electric cooperatives are very involved in rural economic development and will continue to use, support, and promote good rural development programs.

INTRODUCTION

Chairman Lucas, Members of the Subcommittee, for the record, I am Glenn English, CEO of the National Rural Electric Cooperative Association (NRECA), the national association of 900 not-for-profit, consumer-owned electric utilities that provide central station electric service to more than 34 million consumers, most of whom live in the nation's rural areas.

I commend you, Mr. Chairman, and the Subcommittee for convening this hearing on rural development programs. These programs are increasingly important to rural areas that have been challenged by declining populations and economies shattered by low agricultural commodity prices. At the same time, the new global economy is providing opportunities for growth and diversification, and steadily shrinking the distance between people in rural and urban areas. Rural communities want and deserve the same opportunities for growth that their urban counterparts enjoy.

What we have learned in our rural communities and electric cooperative programs is that local leadership is crucial to development activities. The best rural economic development programs are those that allow local leaders to determine their communities' strengths and future direction. Programs must provide sufficient flexibility to accommodate the variability in regions, infrastructure, natural and human resources.

From my 30 years experience in working with rural economic development, I have found that the biggest payoffs come when rural economic development projects are oriented to building infrastructure and a community's economic base. We also need to look at the total portfolio of federal economic development programs to determine how the programs together address national rural economic needs. Each program will not address every need. For example, a carbon sequestration program may be more valuable to areas with a lot of farmland. A water and sewer program may be more valuable to a small community in the mountains. Together the portfolio should address the entire suite of development needs.

What is the federal role in rural development? How can more rural communities take advantage of new opportunities? How can rural development programs be designed to better assist rural leaders in achieving their vision of the future?

Mr. Chairman, today I will provide a perspective from the trenches. First, I will discuss the issue of capital for development in rural areas. I will propose a federal/private partnership program that would encourage private financial investments in rural communities. I will also discuss USDA's Rural Economic Development Loan and Grant Program and how it is being used today to contribute to rural economic growth. Both programs are locally driven and help move much-needed investment capital into rural communities.

Then I will discuss three new areas of opportunity for rural communities: (1) Broadband service and the opportunities it provides for the future; (2) Biobased products and the

potential for a biobased economy; and (3) Carbon sequestration and green programs for the Farm Bill and their potential contributions to the nation.

Rural communities are an important part of America's cultural heritage, and a vital part of America today. With the thoughtful action of this Committee, rural areas can share in our nation's prosperity and continue to play a vital role in America for years to come.

INVESTMENT CAPITAL

Affordable Equity Capital for Rural Business and Cooperative Ventures

We all recognize rural America has not shared fairly in the prosperity of the rest of the country. There is a real need to more broadly diversify our rural economies. One missing crucial element in the ability to diversify and expand is the necessary equity capital for rural business development. Legislation is needed to encourage private investment in value-added agricultural enterprises, producer-owned cooperatives, and other projects that existing venture capital funds do not accommodate.

Studies conducted over the past several years indicate a dramatic shortage of available risk capital for those in rural areas wanting to start new businesses or expand existing ones. Further, when venture capital is available, it comes with an extremely high price tag. Those few venture capitalists willing to take a risk on providing equity for rural-based projects demand a return on investment of 35 to 50-percent, or even more.

The effect of such returns on investment is to severely diminish the economic benefits for both the venture project originators and the rural community in which it is located. If rural communities are to share in the overall national prosperity, then venture capital must be more readily available and affordable for rural business and cooperative growth.

Over the past 18 months, NRECA has worked to develop a broad coalition of financial institutions and rural business interests in an effort to devise a federal/private partnership program to significantly increase availability and affordability of venture capital for rural business and cooperative projects. This group includes AgriBank, American Bankers Association, CoBank, National Cooperative Bank, National Cooperative Business Association, Farm Credit Council, Independent Community Bankers of America, Rural Telephone Finance Cooperative, and the National Rural Utilities Cooperative Finance Corporation (CFC).

Mr. Chairman, I have provided for the subcommittee members a copy of legislative language and explanatory materials that outline the general provisions agreed upon and supported by the working group. The bill language was actually introduced late last year on the Senate side, but saw no action in the closing days of the 106th Congress.

To summarize for the subcommittee the basic elements of the legislation and the points of common agreement among the coalition members, I would make the following points and then try to answer any specific questions.

- ?? To effectively utilize scarce federal funds, any new approach must create a dynamic partnership with private-sector institutions capable of and willing to provide significant amounts of risk capital for the program;
- ?? Any new approach-although requiring significant federal start-up funding-should not be a "government program," but must allow for sound investment and business decisions to be reached in the context of a private-sector setting through a new national funding organization;
- ?? Legislation supported by the coalition would essentially require that only those with money at risk (including the federal government) would be eligible to serve as directors of the new funding organization in order to make sound investment decisions in rural economic development projects; and
- ?? Any new approach must involve local input and support on the front-end, and our legislative language requires that a local project must have a local "sponsoring entity" before applying to the national funding organization for the needed equity funding.

Mr. Chairman, our concept would require a one-time federal contribution of \$150.0 million or more, in a one-to-one match with funding from private not-for-profit or commercial lending institutions. The funds would be administered by a new private funding corporation with a board comprised of those who have put money up for the project - private and federal investors would both have a representative voice in determining equity investment decisions. A local project would require first the support and a small financial commitment from a local sponsoring entity, which can include a local development agency, a local bank or savings and loan, a local electric or producer cooperative, or even a local Chamber of Commerce. The bottom line is that everyone at the table will have some financial risk.

Rural Economic Development Loan and Grant Program

Electric cooperatives meet community needs other than electrification through their economic and community development activities. These efforts create jobs and opportunity in the community and are enabled through USDA's Rural Economic Development Loan and Grant Program (REDLAG). Electric cooperatives have a strong interest in the health of their communities. Economic development results in new power sales for cooperatives, which, through careful power supply planning, can stabilize or even reduce rates to consumers. Thus, cooperatives' supporting successful economic development projects helps to ensure the economic futures of their communities, their co-op and their consumers.

Enacted in 1987, REDLAG created a pool of funds for rural development through encouraging advance loan payments by rural electric and telephone cooperatives financed by the Rural Utilities Service (RUS). These monies are available to RUS utilities as loans or grants for job creation and sustainable economic development projects.

Over the lifetime of the program, REDLAG has provided over \$140 million in loans and over \$66 million in grants to rural communities. These loans and grants have leveraged nearly \$1.2 billion in non-federal capital for 851 projects. Over 25,000 jobs have been

created. This year alone, the Rural Business-Cooperative Service (RBS) will approve \$15 million in loans and \$3 million in grants.

Mr. Chairman, the REDLAG program has brought significant economic opportunities to rural America, and as we are both well aware, rural America is in severe need of such opportunities. In rural Oklahoma, specifically in Caddo County, Caddo Electric Cooperative has had four zero-interest economic development loans which have been approved for a total of \$761,000 in investment and with the effect of creating 55-65 jobs. As Bob Thomasson, CEO of Caddo Electric Cooperative in Binger, Oklahoma put it, "The REDLAG program is an outstanding tool for our Cooperative to use for economic development opportunities in our service area. There has been little or no growth in our area, because most young people are moving to metropolitan areas. But with the REDLAG program, we have been able to assist local people in establishing businesses that create jobs. That's a direct benefit to our service area, which is extremely rural in nature." Since Caddo Electric started applying for loans and grants through the REDLAG program, four loans have been approved. These resulted in the creation of 55 new jobs and more than 850 kW of new load for the Cooperative. Seven more loans are pending which will create an additional 126 new jobs, and will provide 1100 kW in load growth for the Caddo electric distribution system.

Mike Treadwell, CEO of Rural Electric Cooperative in Lindsay, Oklahoma, very near the 6th District of Oklahoma said, "In 1990 a feasibility study and business plan was conducted by Oklahoma State University for a three-county waste management program. This project was in conjunction with the respective County Commissioners to assist in resolving the solid waste problem in rural areas. The grant obtained through the REDLAG program was in the amount of \$100,000 and had the potential to create up to 25 new jobs in the area. In 1991, a REDLAG loan for \$100,000 was made to the Lindsay Municipal Hospital during a time of financial woes. The purpose of the zero-interest loan was to help save the hospital and retain local jobs. The loan helped keep the hospital open for approximately five years. (It has since closed.) This loan has been repaid in its entirety." I would add that although the hospital eventually closed, those five years that it remained opened were extremely important to those individuals in the area. I would also observe, Mr. Chairman, that the history with Lindsay Municipal Hospital illustrates two points that we have already made: one is that no single, defined solution will work in every situation so that flexibility to address rural development opportunities and problems is necessary; the second is to emphasize the need for risk-sharing with intelligent local participation.

While the REDLAG program has worked well over the last decade, the funds available for loans and grants have declined over the last six years. I believe certain changes would reverse this trend and make REDLAG even more successful in the future. I look forward to working with the Chairman and other Members of the Agriculture Committee to adapt REDLAG to current economic realities and reinvigorate the program.

NEW OPPORTUNITIES FOR RURAL DEVELOPMENT

Broadband

As leaders in rural America, electric cooperatives are keenly interested in the challenge of bringing broadband service to rural America. Like Members of this Committee we believe that rural consumers should have the same access to high-speed connections to external markets, employment, and educational opportunities and medical centers as their urban counterparts. However, a joint report by the U.S. Agriculture and Commerce Departments last year concluded "rural areas are currently lagging far behind in broadband availability." While a number of rural communities have access to high-speed internet service, the report also concluded that the primary reason for the slower deployment rate is simply economic. Clearly, market forces may leave behind a significant number of rural Americans simply because of geography.

The Rural Utilities Service (RUS) is currently in the midst of an extremely successful \$100 million pilot program designed to increase broadband access to rural America. This technology neutral program has been very popular-applications amounting to more than \$350 million have been submitted. We strongly believe the RUS pilot program should be authorized and become a permanent part of RUS's telecommunications function. An expanded RUS broadband loan and grant program will help leverage private sector investment to ensure that advanced telecommunications services are swiftly deployed in rural America.

While much of the debate in this Congress has been over the deployment of broadband via fiber optic cable, rural electric and telephone cooperatives are at the forefront of providing satellite-delivered internet to rural areas through the National Rural Telecommunications Cooperative. While there is no one technology that will totally bridge the digital divide, satellite-delivered broadband has an advantage over wired options in that geographic location has no effect on the cost of providing the service. Americans living in remote and rural areas can have Internet access at speeds and prices comparable to those of their urban and suburban counterparts. We look forward to working with the Chairman and other Members of the Agriculture Committee to craft a proposal that will meet the challenge of bringing broadband to all Americans.

Biomass and a Biobased Economy

America has been blessed with rich agricultural lands, hardworking and innovative farmers who have cultivated that resource, and an abundant production of agricultural commodities. Unfortunately, this has not translated into wealth for rural America. High world crop production and low world market prices have undercut farm income. Last year, direct government assistance to farmers surpassed \$22 billion. This level of support is unsustainable over the long-term. With abundant world food production projected to continue, it is time to explore new uses and new market opportunities for commodities.

Biobased products and bioenergy are opportunities whose time has come. Biobased products and bioenergy are chemicals, materials, and fuels made from biomass resources such as agricultural products and their residues, or woody material. New biomass technologies can provide new uses and markets for farm products, enhance U.S. energy security, improve air and water quality, and reduce net greenhouse gas emissions. Scientific breakthroughs in the plant sciences will soon make renewable biobased products and bioenergy competitive substitutes for nonrenewable, carbon-based products such as fossil fuels, industrial chemicals, and pharmaceuticals. Last year the National Academy of Sciences reported, "Biological sciences are likely to make the same impact on the formation of new industries in the next century as the physical and chemical sciences have had on industrial development throughout the century now coming to a close."

I co-chair the Department of Energy's Biomass Research and Development Technical Advisory Committee, created under the Biomass Research and Development Act of 2000. The Committee's focus is technical, advising the Secretaries of Agriculture and Energy on research needs in bioproducts, biofuels, and biopower and strategies to accelerate product development and commercialization.

In addition to more research, federal policies will also influence the adoption and use of biobased products and bioenergy. The Commodity Credit Corporation's (CCC) Bioenergy Program provides incentive payments to smaller producers who increase their production capacity of eligible biofuels. The 2-year program has helped 54 producers increase their possible production by an additional 246 million gallons of bioethanol and 36 million gallons of biodiesel. Federal purchase programs that increase federal use of biofuels or encourage the procurement of biobased products as alternatives to nonrenewable products can demonstrate the performance of these products, while also stimulating additional research and production. Programs that make capital investment available to manage the risk of these new technologies may also be necessary.

Rural communities are positioned through their proximity to the plant-based feedstocks to attract the new processing and manufacturing industries of these products. This is an opportunity to create new uses for agricultural products and new businesses for rural communities. This Committee can help by including a biomass title in the new Farm Bill. This title could extend the CCC's Bioenergy Program another 5 years and expand it to include additional biobased products. The Farm Bill could also mandate an increase in the use of biofuels by the federal fleet and establish a bioproduct preference procurement program modeled after the Resource Conservation and Recovery Act Section 6002.

Mr. Chairman, we look forward to working with you to make biobased industrial products cost-competitive and make a biobased economy a reality.

Carbon Sequestration

Another area generating a great deal of attention is carbon sequestration. Growing concern about the potential impacts of increasing atmospheric greenhouse gas

concentrations has generated interest in cost-effective ways to reduce them. Carbon sequestration is about the most inexpensive way there is to offset greenhouse gas emissions.

Trees, crops and other plants absorb carbon dioxide from the air and fix it in their leaves and wood and roots. Carbon dioxide, the most prevalent greenhouse gas, can be stored for a long time in our soils and forests. It's relatively cheap and in the U.S. we have the potential to offset between 10 and 20 percent of our total annual greenhouse gas emissions simply through better management of our soils and forests.

Agricultural practices that increase carbon in the soil-crop residue management, conservation tillage, nutrient management, and other technologies-have additional environmental benefits. Good soil management can increase the productivity of the soil through better fertility and water retention, decrease soil erosion, and improve water and air quality. Clearly this can be a win-win strategy.

Assisting farmers in the transition to new, more sustainable ways of farming that enhance the environment is another idea whose time has come. The new Farm Bill should extend the USDA's conservation programs, or enable the development of carbon as a new market commodity through research and pilot programs. Not only will this provide support to rural economies, but it will also provide environmental security to the global community.

Rural Electric Cooperatives are Important Players in Rural Economic Development

The health and vitality of rural communities is of great concern to me personally, and of great concern to the rural electric cooperatives that serve this population. Cooperatives currently have \$64 million outstanding in loans or other monies for economic development. In addition, a total of 70 operate revolving loan funds totaling over \$26 million. Electric cooperatives are an excellent delivery mechanism for getting community and economic development funding to rural areas: cooperatives not only have their own financial resources that they contribute, but co-op managers and staff are often respected community leaders, communication conduits, and catalysts for local initiatives. Electric co-ops are successful, they are local, they are permanent, they are not-for profit, and their coverage of the country's rural areas is extremely broad.

Through encouraging capital investment in our rural communities and taking advantage of new opportunities, rural communities can remain a vital part of the American economy. Rural communities are worth our investment.

Thank you, Mr. Chairman.